



ASIC

Australian Securities & Investments Commission

Tone from the top: Influencing conduct and culture

*A speech by Greg Medcraft, Chairman,
Australian Securities and Investments Commission*

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CHECK AGAINST DELIVERY

Introduction

Thank you for inviting me to speak at the Regulatory Summit today.

Today I'd like to talk about why culture matters, and what is the role of the board, senior executives, and staff of an organisation in respect of culture.

Why culture matters

Culture is a set of shared values or assumptions. It can be described as the underlying mindset of an organisation. It shapes and influences people's attitudes and behaviours towards, for example, customers and compliance.

It has been said that 'culture is the new black'. It is on the minds of governments, regulators, boards, senior executives, and customers globally.

ASIC is concerned about culture because it is a key driver of conduct within the financial services industry. By focusing more on culture, we expect to get early warning signs where things might be going wrong to help us disrupt bad behaviour before it happens and catch misconduct early. We also think it will help us with identifying not just individual instances of misconduct, but broader, more pervasive problems.

Poor culture often leads to poor outcomes for investors and consumers, impacts on the integrity of the Australian financial markets, and can erode investor and financial consumer trust and confidence.

We are at an exciting time in history, when technological innovation is rewriting almost every industry including the financial services industry.

Very recently, Max Levchin, PayPal co-founder and former chief technology officer, said that his new fintech start-up, Affirm – which offers flexible and fast loans and is pitched as an alternative to a credit card – could challenge global financial institutions with a new model designed to better align with customer interests. Regardless of whether this particular vision succeeds, it is evident that new disruptors will continue to challenge incumbents.

In a new Telstra report, [*Millennials, mobiles and money*](#), it was stated that, ‘millennials may be the first generation to live their lives never requiring nor engaging with a traditional institution and only ever associating the word “branch” with a tree’.

Social licence, social media and the 24-hour news cycle are also changing customer expectations and the way customers behave.

The Telstra report says that ‘the threat from fintech is significant’. It notes that two-thirds of millennials prefer to receive advice on financial products and services via a digital platform, and that automated robo-advice or digital advice is perceived to be more independent and preferred.

In this environment, building and maintaining a culture that your customer can believe in is imperative. There are more choices and information available to customers now than there has ever been before. Firms that do not have a good culture risk losing their customers to firms that do.

Role of the board, senior executives and staff

In an organisation, values and cultural leadership must come from the top. The role of the board, senior executives and management is critical in setting the right culture.

Role of the board

We are interested in reducing poor outcomes arising from poor culture. And we think the board plays an important role in setting the tone, influencing and overseeing culture, and ensuring the right governance framework and controls are in place.

While all levels of management and indeed individuals contribute to culture, what the board says, does and most importantly expects, is absolutely critical in setting the tone for the organisation.

The most critical decisions are generally made by the board, and what the board is and isn’t interested in has ramifications through an organisation. One of the principal ways the board sets the tone is through the selection of a chief executive officer (CEO) who has values that are aligned with the company’s desired culture. The board’s review of the

company's strategy and its role as the gatekeeper of the strategic initiatives of management are also relevant.

In setting the right tone from the top, the board may also wish to consider:

- how the board is modelling the organisation's desired behaviours and values when interacting with management and staff, and
- how the board's actions and behaviours support and advance the organisation's desired culture.

We acknowledge that, for directors who are not involved in the daily operations of a company, monitoring culture can be challenging. However, consistent with their role as non-executive directors, board members may wish to consider the following to gain insights into their company's culture:

- Has the culture of the organisation been independently assessed? What were the results of that assessment? Do the firm's stated values match the actual experiences of customers, employees, suppliers, etc?
- Is culture a regular feature on the board and audit committee agenda?
- Does the board hear from key employees, such as business line managers, to help with obtaining insights into the company's culture, subcultures and team-specific issues?
- Is there board engagement with external stakeholders such as customers, suppliers and regulators?
- Is there monitoring that captures data on key indicators – for example, gathered through employee feedback and surveys, customer complaints, progress on employee training on culture issues and using data analytics to gain insights on culture?
- Is the information in internal and external audits being fully utilised (since these generally touch many parts of the organisation and are exposed to a variety of cultural indicators)?

As these questions illustrate, boards need to stay alert to 'red flags' like inconsistencies, and decisions that clash with stated values. Board members might be 'hands off', but I do think they should have their 'noses in'.

In terms of what ASIC will do, where we identify poor culture, we will make this clear to the firms in which we see it. We think it is important to share this information with directors given their role in guiding and monitoring the management of the company.

Last, but not least, a board should consider monitoring the composition and behaviour of the board on a regular basis to see how this is impacting on the culture of the organisation.

The ASX Corporate Governance Council has published specific recommendations ([Corporate governance principles and recommendations](#)) for the regular review of board performance for entities listed on ASX.

Role of senior executives

The senior management is responsible for creating a culture where everyone has ownership and responsibility for ‘doing the right thing’.

Along with the board, they should set the values and principles of a firm’s culture and ensure these are reflected in the business’s strategy, business model, risk appetite, and compliance and governance frameworks. And they need to ensure the firm’s values are incorporated into all of its business practices and are cascaded down and understood throughout the organisation.

This is important because, quite often, the message gets lost in the white noise in the middle and is not received by the frontline. It is important that middle and frontline managers model the firm’s values because this is how new and junior employees learn ‘how things are done around here’.

The senior management should ensure the compliance and governance frameworks that are in place are both monitored and enforced – and that expectations are made clear throughout the organisation.

Senior management also needs to consider putting in place mechanisms to help with measuring and monitoring a firm’s culture. This includes measuring the level of alignment between a firm’s desired values and staff perceptions. Basically, it is about measuring the ‘gap’ between a firm’s desired culture and the actual mindset of the organisation.

Many firms are currently looking at creating ‘culture dashboards’ to help with capturing data on key indicators gathered through employee feedback and surveys, customer complaints, and progress on employee training on culture issues. Internal and external audits can also help with the periodic monitoring of a firm’s culture, since they generally touch many parts of the organisation and expose a variety of cultural indicators.

All staff through organisation

I have talked specifically about the board, and the senior management. I now want to touch more broadly on staff at all levels of an organisation.

‘Tone from the top’ means ensuring the values are cascaded down and understood throughout the organisation so that the ‘tone from the top’ is reflected in the ‘mood in the middle’ and not lost as white noise.

Recruitment, training and rewards

Recruitment, training and rewards are important. From the beginning, the recruitment process should consider behaviours and attitudes that lead to good conduct and outcomes for customers.

The recruitment process should be designed to recruit staff aligned with the business's cultural values. For example, psychometric testing might be a valuable tool.

Training should be made available to maintain staff knowledge about the firm's values, and the attitudes and behaviours expected of staff.

Rewards play a big role in driving culture and conduct because they impact on priorities and act as a motivator and reinforcer of conduct. It is therefore crucial that firms recognise performance in a way that not only promotes good conduct, but penalises poor conduct as well.

Clear expectations of behaviour

Staff also need to understand how they should behave and what is expected of them.

Leaders need to ask:

- Do staff know the firm's values, and what they are expected to do in their day-to-day work to ensure that the firm is 'living' these values?
- Are staff given clear guidelines about what is expected of them, including training about what to do if they come across an issue or need to make a decision that is not clear to them?
- Do senior management make staff aware of any learnings where poor conduct has been identified?
- Is the expected conduct and behaviour embedded in the firm's policies, procedures and systems?

Setting the tone for staff throughout the organisation involves leaders considering what measures are in place to support staff in carrying out the firm's articulated values. This means that the firm needs to ensure that staff are able to act on the stated values of the firm and, at the same time, progress their own careers and be rewarded for upholding the firm's values.

Communication and whistleblowing

It is also imperative that staff feel they are able to – in fact, that they are encouraged to – speak up when they see something that isn't right. And it's important that there is direct access to the board and leadership team to escalate issues.

This comes down to promoting a culture of open and effective challenge to allow current practices to be tested, encouraging a positive critical attitude among employees, and promoting an environment of open and constructive engagement.

It also means having the right policies around whistleblowers to ensure that information can come to light and that whistleblowers are supported in this process.

Conclusion

I want to conclude by saying that, from both my perspective – and from your perspective – culture matters.

We recognise that culture is not something that can be regulated with black letter law. We know that it isn't feasible to check over every company's shoulder to test its culture, or dictate how a business should be run.

Culture is at the heart of how an organisation and its staff think and behave. It is an issue that companies themselves must address. Boards and senior management play an important role in setting the 'tone from the top' for an organisation. Culture requires senior leaders to think carefully about how their actions and behaviours support and advance the firm's desired culture.

At the end of the day, you need to have a culture that your customers can believe in. If your culture genuinely reflects 'doing the right thing', this will be rewarded with longevity, customer loyalty and a sustainable business.